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Jamaica & Dep

Retail Food Sector

Report

2002

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Report Highlights:
Fierce competition betweem wholesalers and retailers is is placing greater emphasis on price and quality and less on brand loyalty.

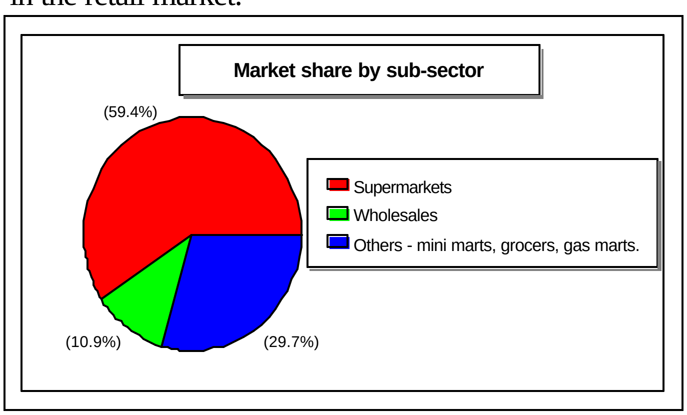
Includes PSD changes: No
Includes Trade Matrix: No
Annual Report
Santo Domingo [DR1], JM

I. MARKET OVERVIEW

Businesses within the Jamaican retail food sector are differentiated on the bases of service, quality, price and convenience, giving rise to a retail sector structurally composed of: upscale and conventional chain and independent supermarkets, wholesalers, small convenience stores and independent grocers (traditional markets). Supermarkets and wholesalers collectively account for approximately 71% of total food and beverage sales in the Jamaican retail food sector. Gas marts (Esso and Texaco), the most recent addition to the Jamaican retail food sector, carry a limited number of snack products, juices, drinks and dairy products. They account for only a minuscule portion of the total retail food market. Small independent grocers are mostly located in rural towns and less attractive segments of the urban area.

Jamaica's retail food sector has stagnated as a result of depressed economic conditions, eroding consumer disposable income and increasing poverty levels. During 2000, there were 1,486 retail and 162 wholesale outlets in the Jamaican food and beverage distribution sub-sector, a 10.5% and 7.5% contraction in the number of wholesale and retail stores from 1999. Despite the more than proportionate contraction in the number of wholesale stores, sales by wholesalers increased by a substantial 12% during 2000, from US$387.39 million to US$ 435.16 million, in sharp contrast to the 6.5% contraction in retail sales from US$657.49 million to US$ 614.90 million. The disproportionate decline in retail sales reduced overall growth in the Jamaican retail food sector to a mere 0.5%, substantially below the 8.2% inflation rate during 2000. Over the last three years total food sales through the distribution sector have become fairly constant, fluctuating within the narrow range of US$ 979.83 million to US$ 1050.05 million. Aggregate sales in Jamaica's retail food sector is not expected to deviate significantly from US$1015 million within the short to medium term.

As the market remains stagnant, competition is expected to intensify among retailers and between retailers and wholesalers. The buoyant performance of wholesalers vis-a-vis retailers in a relatively stagnant food and beverage distributive sector is indicative of an erosion of retail market share to wholesalers. Some industry experts predict intensified price wars in the food and beverage distributive sector and particularly in the retail market.



The Jamaican retail food sector has experienced significant structural changes, resulting primarily from domestic competition, macroeconomic stagnation, declining per capita consumption, changing consumer awareness and adoption of new technology. The main changes in the sector are:

ii. The increasing direct importation by wholesalers and large independent and chain supermarkets.
iii. The forming of strategic alliances among local retail food stores and between local and foreign retail chains.
iv. The adding of complementary strategic business units to core food retail operations.
v. Application of electronic inventory monitoring and control devices.

Under intensified competition, large and medium supermarkets and wholesalers have commenced aggressive direct importation to cut cost margins and offer more price-competitive products in the price sensitive Jamaican consumer market. Brands are becoming less important to Jamaican consumers. Adherence to international food safety standards and price issues are gaining in importance. Purchasing decisions by end consumers appear almost entirely determined by price and perceived quality. To remain competitive, most retail outlets are offering products at wholesale prices to increase volume. To protect market share, wholesalers have retaliated by targeting end (retail) consumers, blurring the distinction between retail and wholesale operations. The planned entry of Price Smart into the Jamaican retail market with a 50,000 Square-foot superstore is interpreted as a signal of increasing price competition.

Faced with heavy competition and increasing economies of scale within the retail market, independent supermarkets are either collaborating to promote, procure and improve management, or are expanding the number and size of stores in order to remain competitive. Supermarkets are expanding into rural towns and previously unserved geographic segments of the corporate and resort areas. Seven of Jamaica's independent supermarkets, with a total complement of fourteen stores, have formed a strategic alliance to strengthen their competitive position in the Jamaican retail food sector - particularly to compete with the largest supermarket chains - HiLo and SuperPlus.

Large supermarkets are adding independent strategic business units to their core food retail operations to either diversify their business portfolio or offer improved customer service and convenience. Several supermarkets have or plan to include one or more of the following: haberdasheries and cosmetics sections, gift shops, restaurants, delicatessens, bakeries and pharmacies as part of their retail operation. Electronic bill payment and money transfer outlets, and automatic banking machines are strategically located adjacent to or inside supermarkets. The recently computerized Jamaican postal service is seeking an alliance with supermarkets to include mailing services as part of regular supermarket augmentations. Almost all supermarkets and convenience stores in Jamaica offer electronic payment services through the electronic multi-link banking network. The major supermarket chains and gas marts are equipped with bar code reading devices to improve inventory management and efficiency .

Jamaican supermarkets are increasingly interested in forming alliances with foreign retail chains. Two of Jamaica's largest retail chains have formed alliances with Lablaws, Canada's largest food retail chain, and Tesco from the United Kingdom, for the exclusive distribution of popular brands such as: President's Choice, No Name and Too Good To Be True. PriceSmart will be entering the Jamaican market in partnership with the proprietors of a major U.S. fast food franchise.

Ongoing liberalization in the domestic economy, the maintenance of a relatively stable exchange rate and domestic supply shortages have encouraged many firms in the food and beverage retail sector to increase the imported content of their aggregate merchandise, including; fresh fruits and vegetables, grocery products, meats and processed products.

Value of Imported and Domestic Food Production

Years	Food & Beverage (US$ Million)	
	Imports	Dometic production*
1996	393	845
1997	475	928
1998	515	921
1999	479	891
2000	465	859

* Including primary export crops.

Over the last four years Jamaica's total production of food (excluding primary export crops) has dropped from US$ 802.56 million during 1997 to US$ 739.75 million during 2000, a 7.8% decline over the period. However, manufactured (processed) foods has consistently increased its relative contribution to total food production (net of primary export crops), moving from 38% during 1997 to 48% during 2000, translating into absolute values of US$ 307.94 million and US$ 353.23 million, respectively. Using the ratio of net imports (imports less re-exports) to domestic food production (excluding primary export crops) as a proxy for the relationship between imported and domestic food consumption, Jamaica continues to fulfill a greater proportion of its consumption demand from imported products. During 2000, imported food and beverage constituted an estimated 44.2% of Jamaica's total food and beverage consumption, an increase of 1.7 percentage points from 42.5% during 1996. The United States is the primary supplier of food and beverages to Jamaica, accounting for approximately 49% of total food and beverage imported into Jamaica during 2000. With the ongoing structural shift in the economy from the productive to the services sector, the relative contribution of imported products to Jamaica's total food and beverage consumption is expected to continue to increase in the short term.

Advantages	Challenges
The proliferation of internet and cable television has increased the impact (in the Jamaican market) of U.S. product advertised through these media.	Eroding consumer disposable income and a stagnant retail sector restrict demand for high-value imported specialty products.
Changing Jamaican consumer lifestyles have created demand for ready-to-cook/eat products that are not readily available from domestic production.	Questionable sanitary / phytosanitary, labeling and other standards, frustrate the importation of food products.
Declining employment of women in the workforce could increase retail sales at the expense of meals away from home.	High import duties and inefficient customs procedures reduce the price competitiveness of imported products.
Increased direct importation by wholesalers and large chain supermarkets creates the opportunity for alliances between U.S. and Jamaican retail chains.	Duty free entry of grocery products from other CARICOM countries and low priced products from Europe and Canada are eroding U.S. market share.
Jamaica's relatively sophisticated retail system is equipped to effectively handle frozen processed and ready-to-eat products, fruits and vegetable and other highly perishable products.	Strategic alliances between Jamaican outlets and European and Canadian retail firms, bolstered Canada's and Europe's position in the Jamaican retail food market.

II ROAD MAP FOR MARKET ENTRY

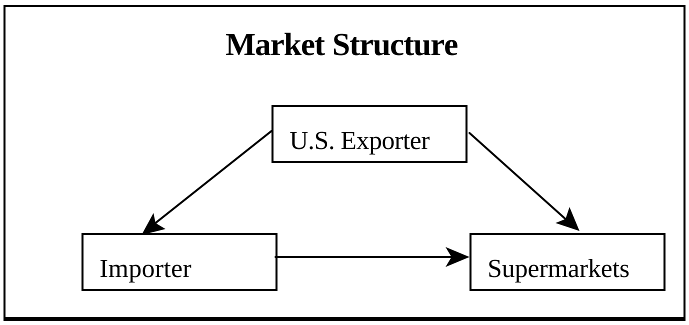
A. SUPERMARKETS

Entry Strategy

Despite increasing direct importation by medium and large supermarket chains, the best way to enter the Jamaican retail market is still through a local distributor. Most supermarkets lack adequate storage facilities to handle high volume purchases and typically purchase lower volumes at more frequent intervals. The relative proportion of direct imports to total imported merchandise in supermarkets is less than 5%. In addition, no single supermarket chain captures more than a 10% share of Jamaica's retail food market. To gain maximum penetration of the overall retail market it is best to use a local distributor. Exclusive distributorship arrangements and collaborative product promotion can give U.S. products a distinct advantage in the Jamaican retail food sector. There is also the opportunity for U.S. retail chains with branded products to form alliances with Jamaican supermarkets. Stringent sanitary / phytosanitary and other standards frequently frustrate the import process and has discouraged some supermarkets from engaging in direct importation.

Market Structure

The structure of Jamaica's retail food sector is relatively simple. Supermarkets procure majority of merchandise (approximately 97% of imports) from local import distributors. Domestic products are sourced from local food processors and farmers. Importers of fresh produce also supply local products. Supermarkets typically do not procure products from wholesalers.



Company profile: Supermarkets

Retail name & Outlet Type	Ownership	Sales	No. of Outlets	Locations (city / region)	Purchasing Agent Type
Progressive Grocers	Jamaican	N/A	14	Kingston, Montego Bay, Mandeville	Direct, Importer
HiLo Food Stores	Jamaican	N/A	9	Kingston, Mandeville, Montego Bay	Direct, Importer
Lee's Food Fair	Jamaican	N/A	2	Kingston	Importer
Family Pride	Jamaican	N/A	1	Kingston	Direct, Importer
SuperPlus Food stores	Jamaican	N/A	19	Island wide	Direct Importer

B. CONVENIENCE STORES. GAS MARTS, KIOSKS

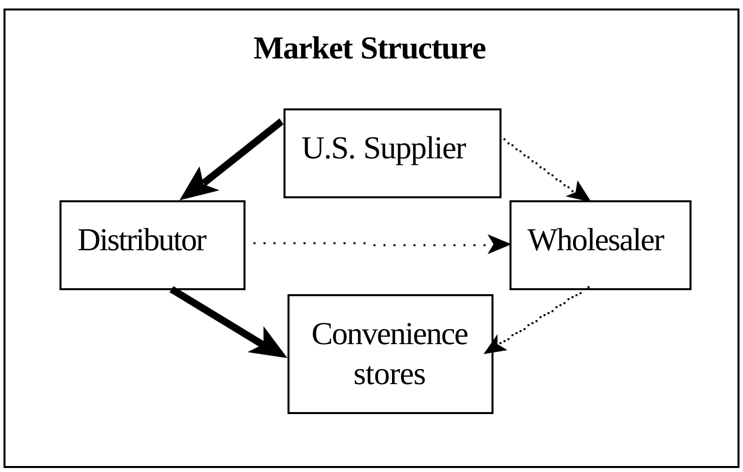
In the Jamaican retail sector, gas marts and mini-marts function as convenience stores, retaining their position by virtue of location and time of operation.

Entry Strategy

The best way to introduce products to convenience stores, including gas marts, is through a local distributor. Logistical procedures and purchase volume preclude convenience stores from engaging in direct importation.

Market Structure

Gas marts are located in Esso and Texaco service stations in corporate and resort areas, rural towns and along highways. They stock an array of snack foods, dairy products, pizza, juices and drinks. They operate on a 24-hours basis and are equipped with bar code reading devices and electronic payment systems, consistent with their service differentiation. National gas station, through its alliance with Churches Chicken, will begin to offer food and drinks, and possibly snack products, at its service stations. Mini-marts are typically located in close proximity to middle income residential neighborhood. They operate very late hours and on public holidays. They tend to know their customers well, build individual relationships and offer friendly, personalized service (eg. telephone). Mini-marts stock a wide array of products in very small quantities. With the exception of gas marts, convenience stores do not operate as chains. Convenience stores procure products from large distributors, informal commercial importers and, to a lesser extent, large wholesalers. Convenience stores account for an estimated 2% of total retail sales.



Company Profile: Convenience stores

Name of Retailer	Ownership	Sales	No. of Outlets	Locations	Purchasing agent
Esso Tiger Markets	Local	N/A	7	Island wide	Distributor
Texaco Star Marts	Local	N/A	15	Island wide	Distributor
Shell Gas Mart	Local	N/A	4	Island wide	Distributor
Vanda's	Local	N/A	1	Kingston	Distributor
Daley Mini-mart	Local	N/A	1	Westmoreland	Distributor / Wholesaler

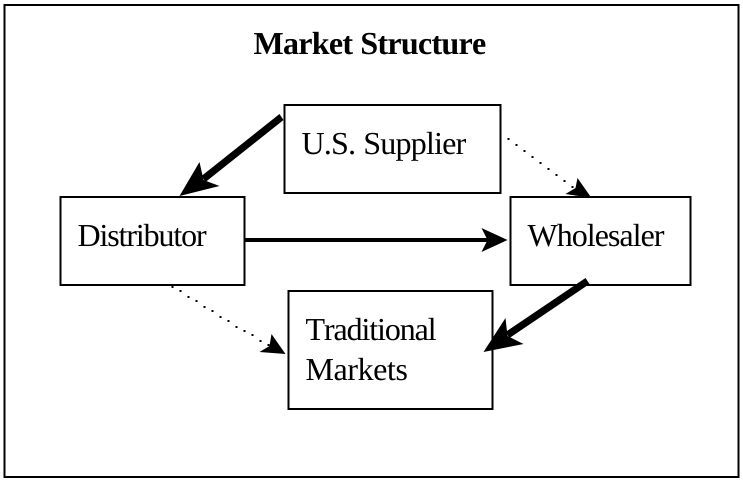
C. TRADITIONAL MARKETS - "MOM AND POP" SMALL INDEPENDENT GROCERY STORES AND WET MARKETS

Entry Strategy

As with supermarkets and convenience stores, new products are best introduced to independent grocery stores through a local distributor. While local importing wholesalers supply most of the traditional market segment, individual wholesalers lack the necessary distribution network to effectively serve a wide cross section of the market. In addition, wholesalers are not involved in building brand identity. Small independent grocers typically make bulk purchases from wholesalers who in-turn pull the demand from local distributors and exporters. Conversely, distributors are inclined to push demand to the retail sector and build brand image.

Market structure.

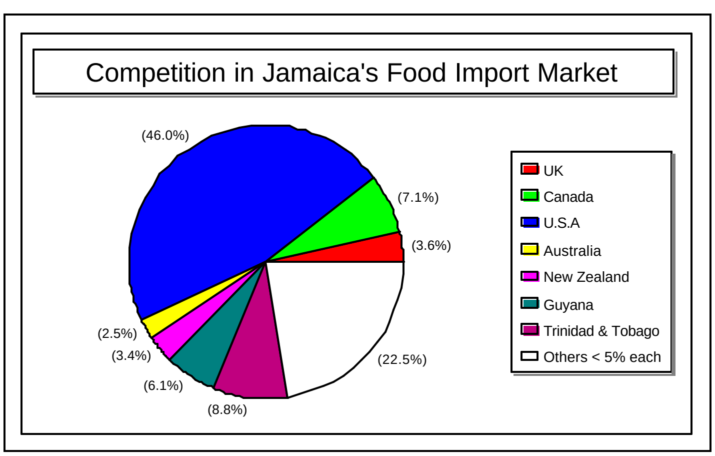
The market structure for the traditional markets segment (small independent grocers) is identical to that of convenience stores, except that the proportion of merchandise procured from wholesalers is much greater. Small independent groceries, which operate mostly in rural areas and socially unstable sections of the corporate area (Kingston and St. Andrew and Spanish Town), have been the hardest hit by changes in the retail sectors. As competition intensifies in the retail food sector, large supermarket chains continue to expand in to rural towns and other unserved geographical areas eroding the market share of independent grocers. In addition, as Jamaican consumers continue to demand better service, small independent groceries will continue to lose market share, becoming less relevant in the retail food sector. The traditional system is expected to be substantially displaced by supermarkets.

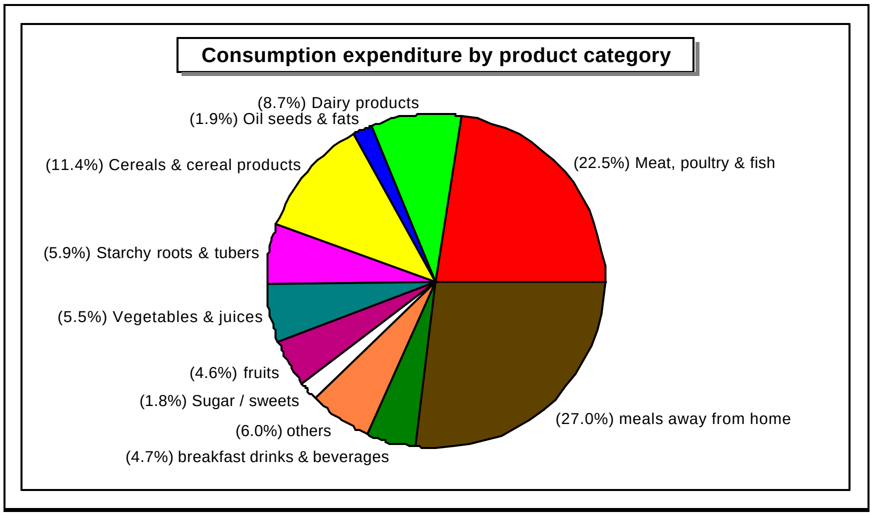


III. COMPETITION

CARICOM countries, particularly Trinidad and Tobago and Guyana, continue to increase their relative share of the Jamaican market. Under the CARICOM Agreement, member states have duty free access to markets in the CARICOM free trade area. Australia and New Zealand are the major competitors to U.S. beef, lamb and dairy products. Chile, France, Italy and Spain are the major competitors for U.S. wines. French fries from the U.S. have lost market share to price competitive products from Canada and the Netherlands. Domestic products are the major competitor for U.S. fruits and vegetables.

Between 1998 and 2000, U.S. the share of imported food and beverages slid by two percentage points from 48% to 46%. At the same time, as a result of duty free entry, Jamaica's major CARICOM trading partners (Guyana and Trinidad and Tobago) increased their relative contributions of CARICOM export to Jamaica by 26 and 6 percentage points during 2000. With the market becoming more price sensitive and brand loyalty becoming less relevant to purchasing decisions, U.S. suppliers will have to revise their pricing strategies to compete with products from Canada, Europe and the Caribbean Community.





IV. BEST PRODUCTS PROSPECTS

The Jamaican food retail sector presents good marketing opportunities for U.S. meat products, including mutton and fish; breakfast cereals and cereal products; juices and breakfast drinks; fruits and vegetables; vegetable oils; snack foods and bakery products and frozen products including french fries and other ready-to-eat/cook products such as pizzas, hamburgers, soups etc.

During 2000, Jamaica imported US$ 109 million worth of cereals and cereal preparations, a slight decline from US$117 million during 1999. Imported vegetable oils and fats amounted to US$ 21 million. Jamaica has a market potential for pastas and bakery products of approximately 850,000 and 1.2 million kilograms per year, respectively. Despite high import duties, fruits and vegetables will continue to have good market potential in Jamaica due short local growing seasons and a local climate unsuitable for some varieties (apples, grapes etc.)

Products Not Present because they Face Significant Barriers

The presence of Pseudorabies in the U.S. prohibits the entry of U.S. pork products into Jamaica unless they are hermetically sealed. Apart from products that require sanitary / phytosanitary permits, there are no barriers to the Jamaican market. However, high import duties (as high as 86%) renders some products uncompetitive in the Jamaican market.

V. POST CONTACT AND FURTHER INFORMATION

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Other reports on the Jamaican market are located at www.fas.usda.gov. Including; "The Exporter Guide" and the "HRI Food Service Sector Report".